

**SCHEDULE OF ANNUAL BUDGET AND SUPPORTING  
DOCUMENTATION OF**

**INGWE MUNICIPALITY**

**2015/16 TO 2017/18 MEDIUM TERM REVENUE AND EXPENDITURE  
FORECASTS**

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### 3. EXECUTIVE SUMMARY

#### Introduction

This 2015 to 2018 Tabled Medium Term Revenue and Expenditure Framework(MTREF) Budget Report deals with the operating budget and tariff proposals as well as the capital budget and funding sources proposal to ensure that Ingwe Municipality renders services to their local community in a financially sustainable manner.

#### Past performance

Ingwe Municipality has now attained unqualified audit reports for the past consecutive years. Whilst the unqualified reports are positive achievements one has to be honest and say that it tells the reader little about whether we have improved service delivery or even delivered on our constitutional mandate. Its actually reflects the good image of Ingwe leadership in rendering its services, transparency and equally to benefits its needy community at large.

#### Financial Sustainability

Financial sustainability over the long-term has to do with the maintenance of high priority expenditure programs, both operating and capital, to ensure program sustainability and desired quality of services to be rendered. There must also be rates and service charges stability and predictability in the overall rate burden by ensuring reasonable rates and service charges to fund programs.

The application of sound financial management principles for the compilation of the municipality's financial plan is essential and critical to ensure that the municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

#### Revenue Enhancement Strategy

Ingwe Municipality developed a revenue enhancement strategy in 2012. The department of Cogta was approached by the municipality in order to review the strategy. Some of the challenges is that, most of the population within Ingwe area are Indigent due to socio economic problems. The municipality has embarked on implementing a debt collection strategy to optimize the collection of debt owed by consumers. Furthermore the municipality has undertaken various customer care initiatives to ensure the municipality truly involves all citizens in the process of ensuring a people lead government, by making sure that we putting people first.

The following table is a consolidated overview of the proposed 2015/2016 Annual budget and medium term revenue and expenditure framework:

Table 1 Consolidated Overview of the 2015/2016

R Thousand	Adjustment Budget 2014/2015	Budget year 2015/2016	Budget year 2016/2017	Budget year 2017/2018
Total Operating Revenue	110 424	151 383	141 133	142 945
Total Operating Expenditure	83 766	91 390	97 506	103 646
Surplus/Deficit for the year	26 658	59 993	43 627	39 299
Total Capital Expenditure	64 978	71 282	19 873	19 874

Total operating revenue has increased by 37 % for the year 2015/2016 financial year when compared to the adjustments budget. For the two outer years, operational revenue has increased by 7 % and 6 % when compared to 2015/2016 financial year

Total operating expenditure for the 2015/2016 financial year has been appropriated at R91million and translates into a surplus of 59 million. When compared to the 2014/2015 Adjustments Budget, operational expenditure has increased by 9% when compared to the Adjustments budget. For the outer years it has increased by 6 % respectively. The operating surplus for the outer years steadily increases to 19 million. This surplus will be used to fund capital expenditure and to further ensure cash backing of reserves and funds.

The capital budget of R71 million for 2015/2016 is 10% higher when compared to the adjustment budget. This is actually to assist in rendering service delivery to its needy community to fight against poverty that is affecting our community at large. Capital projects are funded by 70% grants and 30% internally generated funds, using our cash backed reserves.

### **Operating Revenue Framework**

For Ingwe Municipality to continue improving the quality of services provided to its citizens it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding, hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macroeconomic policy
- Efficient revenue management, which aims to ensure a 99 per cent annual collection rate for property rates and other key service charges,
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) MPRA,
- Increase ability to extend new services and recover costs
- The municipality's Indigent Policy and rendering of free basic services and
- Tariff policies of the Municipality

The following table is a summary of the 2015/2016 MTREF(classified by main revenue source):

### Income by Source Table

Description	Ref	2011/12	2012/13	2013/14	Current Year 2014/15				2015/16 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
<b>Revenue By Source</b>											
Property rates	2	3 522	4 693	5 194	5 500	5 500	4 934	4 934	5 220	5 507	5 799
Property rates - penalties & collection charges		135	434	253	10	100	(55)	(55)	115	121	128
Service charges - electricity revenue	2	-	-	-	-	-	-	-	-	-	-
Service charges - water revenue	2	-	-	-	-	-	-	-	-	-	-
Service charges - sanitation revenue	2	-	-	-	-	-	-	-	-	-	-
Service charges - refuse revenue	2	-	-	-	-	-	-	-	-	-	-
Service charges - other		310	449	530	350	200	160	160	250	264	278
Rental of facilities and equipment		242	237	296	363	348	368	368	357	377	397
Interest earned - external investments		3 924	4 504	3 936	4 000	4 000	3 367	3 367	4 232	4 477	4 477
Interest earned - outstanding debtors		-	-	-	-	-	-	-	-	-	-
Dividends received		-	-	-	-	-	-	-	-	-	-
Fines		35	111	709	300	300	980	980	300	317	333
Licences and permits		-	-	-	-	-	-	-	-	-	-
Agency services		-	-	-	-	-	-	-	-	-	-
Transfers recognised - operational		51 007	54 782	61 246	70 746	70 976	80 878	80 878	89 841	86 496	84 688
Other revenue	2	309	2 224	357	384	2 303	450	450	1 099	421	444
Gains on disposal of PPE		626	(8)	10	-	-	-	-	-	-	-
<b>Total Revenue (excluding capital transfers and contributions)</b>		<b>60 111</b>	<b>67 426</b>	<b>72 531</b>	<b>81 652</b>	<b>83 726</b>	<b>91 082</b>	<b>91 082</b>	<b>101 414</b>	<b>97 980</b>	<b>96 543</b>

In line with the formats prescribed by Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus or deficit.

Grants remain the largest revenue source and property rates is the second and third largest source is interest on investment and the fourth one is other revenue. Municipality have been urged to review the tariffs of the items on annual basis to ensure they are cost reflective and market related.

### Operating transfers and grants receipts

Tariff-setting is a pivotal and strategic part of the compilation of any budget. When rates, tariffs and other charges were revised, local economic conditions, input costs and affordability of services were taken into account to ensure the financial sustainability of the municipality.

National Treasury continues to encourage municipality to keep increases in rates, tariffs and other charges as low as possible. Municipality must justify in their budget documentation all increases in excess of CPI upper boundary of the South African Reserve Bank's inflation rate. Excessive increases are likely to be counterproductive, resulting in higher levels of non-payments.

### Property Rates

Property rates cover the costs of the provision of general services. Determining the effective property rate tariff is therefore an integral part of the municipality's budgeting process

National Treasury's MFMA Circular No.51,inter alia with the implementation of the Municipal Property Rates Act, with regulations issued by the Department of Co-operative Governance. These came into effect on 1 July 2009 and prescribe the rate ratio for the non-residential

categories, public service infrastructure and agricultural properties relative to residential properties to be 0.25:1

**The following stipulations in the Property Rates are highlighted:**

- The first R 15000 of the market value of property used for residential purposes is excluded from the rate-able value(Section 17(h)of the MPRA.
- 30%.rebate will be granted for developed properties
- 35% rebate will be granted to agriculture
- 100% rebate will be granted to registered indigents in terms of the Indigent Policy
- For pensioners, physically and mentally disabled persons, a maximum/total rebate of 75% to owners of rate-able property if the total gross income of the applicant and/his spouse, if any, does not to exceed the amount equal to twice the annual state pension as approved by Government for a financial year. In this regard the following stipulations are relevant:
  - The rate-able property concerned must be occupied only by the applicant and his/her spouse, if any, and by dependants without income.
  - The applicant must submit proof of his/her age and identity and in the case of a physically or mentally handicapped person, proof of certification by a Medical Officer of Health, also proof of the annual income from a social pension
  - The applicant's account must be paid in full, or if not, an arrangement to pay the debt should be in place
  - The property must be categorized as residential

**Property Rates**

Percentage growth is higher than a CPI because Ingwe Municipality has taken into account prior collection trends and its possible to collect this revenue.

**Overall impact of tariff increases on households**

The following table shows the overall expected impact of the tariff increases on a large and small household, as well as an indigent household receiving free basic services.

Note that in all instances the overall impact of the tariff increases on household's bills has been kept to between 5.8 per cent as well as the increase in indigent households

**Operating Expenditure Framework**

The expenditure framework for the 2015/2016 budget is informed by the following:

- Balanced budget constraint(operating expenditure should not exceed operating revenue)unless there are existing uncommitted cash-backed reserves to fund any deficit
- Funding of the over the medium-term as informed by Section 18 and 19 of the MFMA,
- Strict adherence to the principle of no project plans no budget. If there is no business plan no funding allocation can be made.

## Expenditure by Source Table

Expenditure By Type											
Employee related costs	2	15 633	19 732	24 493	31 380	29 465	28 671	28 671	32 418	34 299	36 288
Remuneration of councillors		5 543	5 931	6 450	6 728	6 728	5 962	5 962	7 112	7 524	7 961
Debt impairment	3	246	3 893	1 983	442	442	442	442	481	509	538
Depreciation & asset impairment	2	3 589	4 697	8 635	5 875	6 099	5 875	5 875	6 332	7 630	8 072
Finance charges		251	300	403	361	361	371	371	385	407	431
Bulk purchases	2	-	-	-	-	-	-	-	-	-	-
Other materials	8	-	-	-	-	-	-	-	-	-	-
Contracted services		1 486	2 727	3 291	3 756	4 142	5 313	5 313	3 510	3 536	3 813
Transfers and grants		848	292	355	700	700	645	645	962	1 017	1 076
Other expenditure	4, 5	48 323	76 801	54 796	33 231	35 829	39 429	39 429	40 191	42 584	45 467
Loss on disposal of PPE		(284)	-	-	-	-	-	-	-	-	-
<b>Total Expenditure</b>		<b>75 636</b>	<b>114 373</b>	<b>100 405</b>	<b>82 474</b>	<b>83 766</b>	<b>86 708</b>	<b>86 708</b>	<b>91 390</b>	<b>97 506</b>	<b>103 646</b>
Surplus/(Deficit)		(15 525)	(46 947)	(27 874)	(821)	(39)	4 374	4 374	10 025	474	(7 103)
Transfers recognised - capital		15 025	45 882	27 553	62 071	26 698	24 626	24 626	49 969	43 153	46 402
Contributions recognised - capital	6	-	-	-	-	-	-	-	-	-	-
Contributed assets		-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) after capital transfers & contributions		(500)	(1 065)	(321)	61 249	26 659	29 000	29 000	59 994	43 627	39 299
Taxation		-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) after taxation		(500)	(1 065)	(321)	61 249	26 659	29 000	29 000	59 994	43 627	39 299
Attributable to minorities		-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) attributable to municipality		(500)	(1 065)	(321)	61 249	26 659	29 000	29 000	59 994	43 627	39 299
Share of surplus/ (deficit) of associate	7	-	-	-	-	-	-	-	-	-	-
<b>Surplus/(Deficit) for the year</b>		<b>(500)</b>	<b>(1 065)</b>	<b>(321)</b>	<b>61 249</b>	<b>26 659</b>	<b>29 000</b>	<b>29 000</b>	<b>59 994</b>	<b>43 627</b>	<b>39 299</b>

## Employee Related Costs

The budgeted allocation for employee related cost for the 2015/2016 financial year totals 39 million .Based on the three year collective SALGBC agreement, salary increases have been factored into this budget at a percentage increase of 5.8 percent for the 2015/2016 financial year .An annual increase of 4.8 per cent has been included in the two outer years of the MTREF. The cost associated with the remuneration of councillors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act,1998(Act 20 of 1998).Salaries has increase because of some new position that are included into Ingwe Municipality's organogram.

The provision of debt impairment was determined based on an annual collection rate. For the 2015/2016 financial year this amount equates to R 480 thousand and escalates to R 538 thousand by 2017/2018.While this expenditure is considered to be non-cash item, it informed the cost associated with rendering the services of the municipality, as well as the municipality's realistically anticipated revenues.

Provision for depreciation and asset impairment and asset impairment has been informed by the Municipality's Asset Management Policy. Depreciation is widely considered a proxy for the rate asset consumption. Budget appropriations in this regard total R 6 million for the 2015/2016 financial and equates to 8 per cent of the total operating expenditure.

Finance charges consists of lease payable to Nashua for their photocopying machine that Ingwe is using.

In line with repairs and maintenance plan this group of expenditure has been prioritised to ensure sustainability of the Municipality's infrastructure assets.

## Free Basic Social Services Package

The social package assists households that are poor or face other circumstances that limit their ability to pay for services. To receive these free services the households are required to register in terms of the Municipality's Indigent Policy. The target is to register 4000 or more indigent households during the 2015/2016 financial year a process reviewed annually.

## **Capital expenditure**

Capital expenditure funding is funded by grants which is an amount of R49 million and R150 thousand from sport and recreation fund and internal generated funds of R21 million which is funded internally.

## **Budget Assumptions**

**Given the constraints on the revenue side, the Council took very tough decisions on the expenditure side. Priority was given to:**

- Protecting the poor from the worst impacts of the economic downturn
- Expediting spending on capital projects that are funded by conditional grants.

**In preparing the budget, the following priorities were taken into account:**

- Deliver more and better services in a caring and efficient manner
- Hold political office bearers and public servants accountable

**The challenge for the municipality is to do more within its existing resource envelope**

Over the next few years, the municipality must deliver more services- and deliver them more efficient-within a tight resources envelope. Achieving this objective requires requires a new way of working:

- The budget has been reprioritized so that money is moved from low-priority programmes to high priority programmes.

## **Investments**

At present the Council does not have long term investments to fund the operating or capital expenditure. The investment portfolio for the Council is short term investments for conditional grants received from National Treasury and other organization of state.



## **2.1 Explanatory notes to MBRR Table A1-Budget Summary for 2015/2016 Financial year.**

- Table A1 is a budget summary and provides a concise overview of Ingwe Local Municipality's budget from all the major financial perspectives (operating, capital expenditure, financial position, cash flow and MFMA funding compliance).
- The table provides an overview of the amounts approved by Council for operating performance, resources deployed to capital expenditure, financial position, cash and funding compliance, as well as the municipality's commitment to eliminating basic service delivery backlogs.
- Financial management reforms emphasises the importance of the municipal budget being funded. The Budget Summary provides the key information in this regard;
  - Transfer recognised is reflected on the Financial Performance Budget
  - Internally generated funds are financed from a combination of the operating surplus and accumulated cash-backed surplus from previous years. The fact that the municipality's cash flow remains positive, and is improving indicates that the necessary cash resources are available to fund the Capital Budget.
- Even though the Council is placing great emphasis on securing the financial sustainability of the municipality, this is not being done at the expense of services to the poor. The municipality is committed to provide free basic services to the needy community. In addition, the municipality continues to make progress in addressing service delivery backlogs.

## **2.2 Explanatory notes to MBRR Table A2-Budgeted Financial Performance (revenue and expenditure by standard classification)**

Table A2 is a view of the budgeted financial performance in relation to revenue and expenditure per standard classification. The modified GFS standard classification divides the municipal services into its functional areas. Municipal revenue, operating expenditure are then classified in terms of each of these functional areas which enables the National Treasury to compile 'whole of government' reports

### **2.3 Explanatory notes to MBRR Table A3-Budgeted Financial Performance (revenue and expenditure by municipal vote)**

Table A3 is a view of the budgeted financial performance in relation to the revenue and expenditure per municipal vote. This table facilitates the view of the budgeted operating performance in relation to the organisational structure. This means it is possible to present the operating surplus or deficit of a vote. The table shows the analysis of the surplus or deficit

## **2.4 Explanatory notes to Table A4 - Budgeted Financial Performance (revenue and expenditure)**

Total revenue is R 101 million in 2015/2016 and escalates to R 97 million by 2016/2017. This represents a year-on –year increase.

2. Revenue to be generated from property rates is R 5 million in 2015/2016 financial year and increases to R 5 million 2017/2018 which represents 3.2 per cent of the operating revenue base of the municipality and therefore remains a significant funding source for the municipality. Property rates have increased more than CPI because of the prior collection trends.

Transfers recognised-operating includes the local government equitable share and other grants from national and provincial government. It is noted that the grants remains a significant and high funding source for the municipality.

**Explanatory notes to Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding source**

- Table A5 is a breakdown of the capital programme in relation to capital expenditure by municipal vote, capital expenditure by standard classification, and the funding sources necessary to fund the capital budget, including information on capital transfers from national and provincial departments.
- The capital programme is funded by grants, donations and internally generated funds

## **Explanatory notes to Table A6-Budgeted Financial Position**

- Table A6 is consistent with international standards of good financial management practice, and improves understand ability for councillors and management of the impact of the budget on the statement of financial position(balance sheet)
- This format of presenting the statement of financial position is aligned to GRAP1, which is generally aligned to the international version.
- Any movement on the budgeted financial performance or the capital budget will inevitably impact on the Budgeted Financial Position. As an example, the collection rate assumption will impact on the cash position of the municipality and subsequently inform the level of cash and cash equivalent at year end.
- Table SA3 provides a detailed analysis of the major components of a number of items, including
  - Call investments deposits
  - Consumer debtors
  - Property, plant and equipment
  - Trade and other payables
  - Provisions non current
  - Change in net assets,
  - Reserves
- The municipal equivalent of equity is Community Wealth/Equity. The justification is that ownership and the net assets on the municipality belong to the community.

### **Explanatory notes to Table A7 - Budgeted Cash Flow Statement**

- The budgeted cash flow statement is the first measurement in determining if the budget is funded.
- It shows the expected level of cash in-flow versus cash out-flow that is likely to result from the implementation of the budget.
- Cash and cash equivalent totals R 108 million as at the end of the 2015/2016 and escalates to R 180 million by 2017/2018.

#### **Explanatory notes to Table A8 - Cash Backed Reserves/Accumulated Surplus Reconciliation**

- The cash backed reserves/accumulated surplus reconciliation is aligned to the requirements of MFMA Circular 42 – Funding a Municipal Budget.
- In essence the table evaluates the funding levels of the budget by firstly forecasting the cash and investments at year end and secondly reconciling the available funding to the liabilities/commitments that exist.
- The outcome of this exercise would either be a surplus or deficit. A deficit would indicate that the applications exceed the cash and investments available and would be indicative of non-compliance with the MFMA requirements that the municipality's budget must be funded
- As part of the budgeting and planning guidelines that informed the compilation of the 2015/2016 MTREF the end objective of the medium framework was to ensure the budget is funded aligned to section 18 of the MFMA.
- Considering the requirements of section 18 of the MFMA, it can be concluded that the adopted 2015/2016 MTREF is funded



### **Explanatory notes to Table A9 - Asset Management**

- Table A9 provides an overview of municipal capital allocations to building new assets and the renewal of existing assets, as well as spending on repairs and maintenance by asset class.
- National Treasury has recommended that municipalities should allocate at least 40 per cent of their capital budget to the renewal of existing assets, and allocations to repairs and maintenance should be 8 per cent of PPE. The Municipality is working towards meeting both of these recommendations but the budget for Ingwe is adequate to secure the ongoing health of the municipality's infrastructure.

#### **Explanatory notes to Table A10 - Basic Service Delivery Measurement**

- Table A10 provides an overview of service delivery levels, including backlogs (below minimum service level), for each of the main services. The Municipality continues to make good progress with the eradication of backlogs:
- The number of household registered for indigent in 2015/2016 is expected to increase therefore entitled to receiving Free Basic Services, this is covered by municipality's equitable share

## **Part 2 – Supporting Documentation**

### **1. Budget Assumptions**

**Given the constraints on the revenue side, the Council took very tough decisions on the expenditure side. Priority was given to:**

- Protecting the poor from the worst impacts of the economic downturn
- Expediting spending on capital projects that are funded by conditional grants.

#### **General inflation outlook and its impact on the municipal activities**

There are five key factors that have been taken into consideration in the compilation of the 2015/2016 MTREF:

- National Government macro-economic targets;
- The general inflationary outlook and the impact on Ingwe residents and businesses;
- The impact of municipal cost drivers;
- The increase in the cost of remuneration. Employee related costs MTREF and therefore this increase above inflation places a disproportionate upward pressure on the expenditure budget. The wage agreement SALGBC concluded with the municipal workers unions were taken into account.

### **2. Overview of the annual budget process**

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget. In addition Chapter 2 of the Municipal Budget and Reporting Regulations states that the Mayor of the municipality must establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act.

The Budget Steering Committee consists of the Municipal Manager and senior officials of the municipality meeting under the chairpersonship of the MMC for Finance.

The primary aim of the Budget Steering Committee is to ensure that;

- the process followed to compile the budget complies with legislation and good budget practices;
- there is proper alignment between the policy and service delivery priorities set out in the Ingwe IDP and the budget, taking into account the need to protect the financial sustainability of municipality;
- the municipality's revenue and tariff setting strategies ensure that the cash resources needed to deliver services are available; and
- the various spending priorities of the different municipal departments are properly evaluated and prioritised in the allocation of resources.

### **3. Budget Process Overview**

In terms of section 21 of the MFMA the Mayor is required to table in Council ten months before the start of the new financial year (i.e. in August 2015) a time schedule that sets out the process to revise the IDP and prepare the budget.

The Mayor tabled in Council the required IDP and budget time schedule on 25 August 2015  
Key dates applicable to the process were:

- **August 2015** – Joint strategic planning session of the Mayoral Committee and Executive Management. Aim: to review past performance trends of the capital and operating budgets, the economic realities and to set the prioritisation criteria for the compilation of the 2015/2016 MTREF;
- **November 2015** – Detail departmental budget proposals (capital and operating) submitted to the Budget and Treasury Office for consolidation and assessment against the financial planning guidelines;
- **3 to 7 January 2016** - Review of the financial strategy and key economic and financial planning assumptions by the Budget Steering Committee. This included financial forecasting and scenario considerations;
- **January 2016** – Multi-year budget proposals are submitted to the Mayoral Committee for endorsement;
- **28 January 2016** - Council considers the 2015/16 Mid-year Review and Adjustments Budget;
- **February 2016** - Recommendations of the Mayoral Committee are communicated to the Budget Steering Committee, and on to the respective departments. The final 2015/16MTREF is revised accordingly;
- **31 March 2016**- Annual Budget and MTREF 2015/2018 and IDP 2015/2016 tabled
- **April 2016**- Public is consulted on the final Annual Budget and MTREF 2015/2018
- **6 May 2015** - Closing date for written comments;
- **6 to 21 May 2015** – finalisation of the 2015/16 IDP and 2015/16 MTREF, taking into consideration comments received from the public, comments from National Treasury, and updated information from the most recent Division of Revenue Bill and financial framework; and
- **31 May 2015**- Annual Budget and MTREF 2015/2018 is tabled for consideration for adoption

There were no deviations from the key dates set out in the Budget Time Schedule tabled in Council

#### **4. IDP and Service Delivery and Budget Implementation Plan**

Ingwe IDP is its principal strategic planning instrument, which directly guides and informs its planning, budget, management and development actions. This framework is rolled out into objectives, key performance indicators and targets for implementation which directly inform the Service Delivery and Budget Implementation Plan.

- Registration of community needs; e Process Plan applicable to the fourth revision cycle included the following key IDP processes and deliverables:
- Compilation of departmental business plans including key performance indicators and targets;
- Financial planning and budgeting process;
- Public participation process;
- Compilation of the SDBIP, and

- The review of the performance management and monitoring processes.

Budget Implementation Plan. Business planning links back to priority needs and master planning, and essentially informed the detail operating budget appropriations and three-year capital programme.

## **5. Financial Modelling and Key Planning Drivers**

As part of the compilation of the 2015/16 MTREF, extensive financial modeling was undertaken to ensure affordability and long-term financial sustainability. The following key factors and planning strategies have informed the compilation of the 2015/16 MTREF:

- Local growth
- Policy priorities and strategic objectives
- Asset maintenance
- Economic climate and trends (i.e inflation, Eskom increases, household debt, migration patterns)
- Performance trends
- The approved 2014/15 adjustments budget and performance against the SDBIP
- Cash Flow Management Strategy
- Debtor payment levels
- Loan and investment possibilities
- The need for tariff increases versus the ability of the community to pay for services;
- Improved and sustainable service delivery

In addition to the above, the strategic guidance given in National Treasury's MFMA Circulars 70, 72, 74, and 75 and prior circulars has been taken into consideration in the planning and prioritisation process.

## **6. Overview of alignment of annual budget with IDP**

The Constitution mandates local government with the responsibility to exercise local developmental and cooperative governance. The eradication of imbalances in South African society can only be realized through a credible integrated developmental planning process.

## **7. Measurable performance objectives and indicators**

Performance Management is a system intended to manage and monitor service delivery progress against the identified strategic objectives and priorities. In accordance with legislative requirements and good business practices as informed by the National Framework for Managing Programme Performance Information, the Ingwe has developed and implemented a performance management system of which system is constantly refined as the integrated planning process unfolds. The Municipality targets, monitors, assess and reviews organisational performance which in turn is directly linked to individual employee's performance.

## **8. Planning, budgeting and reporting cycle**

The performance of the Ingwe relates directly to the extent to which it has achieved success in realising its goals and objectives, complied with legislative requirements and meeting stakeholder expectations. The Ingwe therefore has adopted one integrated performance management system which encompasses.

## **8.1 Performance indicators and benchmarks**

### ***a) Revenue Management***

- As part of the financial sustainability strategy, an aggressive revenue management framework has been implemented to increase cash inflow, not only from current billings but also from debtors that are in arrears in excess of 90 days. The intention of the strategy is to streamline the revenue value chain by ensuring accurate billing, customer service, credit control and debt collection.

### ***b) Creditors Management***

- Ingwe has managed to ensure that creditors are settled within the legislated 30 days of invoice. While the liquidity ratio is of concern, by applying daily cash flow management the municipality has managed to ensure a 100 per cent compliance rate to this legislative obligation. This has had a favorable impact on suppliers' perceptions of risk of doing business with the Ingwe, which is expected to benefit the local community in the form of more competitive pricing of tenders, as suppliers compete for the Ingwe's business

### **c) Free Basic Services: basic social services package for indigent households**

The social package assists residents that have difficulty paying for services and are registered as indigent households in terms of the Indigent Policy of the Ingwe. Only registered indigents qualify for the free basic services.

## **9. Overview of budget related-policies**

The Ingwe Municipality budgeting process is guided and governed by relevant legislation, frameworks, strategies and related policies.

### **General inflation outlook and its impact on the municipal activities**

There are five key factors that have been taken into consideration in the compilation of the 2015/2016 MTREF:

- National Government macro-economic targets;
- The general inflationary outlook and the impact on Ingwe residents and businesses;
- The impact of municipal cost drivers;
- The increase in the cost of remuneration. Employee related costs MTREF and therefore this increase above inflation places a disproportionate upward pressure on the expenditure budget. The wage agreement SALGBC concluded with the municipal workers unions were taken into account.

## **10. Overview of budget funding**

### **Medium-term outlook: operating revenue**

The following table is a breakdown of the operating revenue over the medium-term: Tariff setting plays a major role in ensuring desired levels of revenue. Getting tariffs right assists in the compilation of a credible and funded budget. The Ingwe derives most of its operational property rates, operating and capital grants from organs of state and other minor charges (such as building plan fees and traffic fines etc.)

### Budget is funded as follows:

• Rates	5 219 934.37
• Other Income	1 242 450.00
• Refuse	250 000.00
• Investment Income	4 232 000.00
• Accumulated Surplus	10 000 000.00
• Equitable Share	78 927 000.00
• Support for Councillors	4 205 000.00
• MIG	24 319 000.00
• DME	18 000 000.00
• FMG	1 800 000.00
• MSIG	930 000.00
• Biomass power	700 000.00
• Bulwer community services centre	7 500 000.00
• Demarcation transition	1 857 000.00
• Sports & Recreation	150 000.00
• Provincialisation of Libraries	861 000.00
• Community Libraries	191 000.00
• Expanded public works	1 070 000.00
<b>Total</b>	<b>161 383 384.37</b>

2.2 The future fiscal sustainability of the Council is not very positive. The following are contributing factors for this situation:

- The continued inability of consumers to settle outstanding accounts
- Government departments not paying their rates accounts
- Poor of revenue base on high rate of Indigent people around Ingwe area
- The continued dependency on grant funding from the national government

The revenue strategy is a function of key components such as:

- Growth in the local and economic development;
- Revenue management and enhancement;
- To achieve at least 95 per cent annual collection rate for consumer revenue

### 11.Expenditure on allocations and grant programmes

It is estimated that a spending rate of at least 95 per cent is achieved on operating expenditure and 96 per cent on the capital programme for the 2015/16 MTREF of which performance has been factored into the cash flow budget.

The following table is a breakdown of allocations and grant programmes

Description  R thousand	Ref	2011/12	2012/13	2013/14	Current Year 2014/15			2015/16 Exp
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2015/16
<b>EXPENDITURE:</b>	1							
<u>Operating expenditure of Transfers and Grants</u>								
National Government:		47,108	53,039	60,542	69,765	69,765	69,765	86,932
Local Government Equitable Share		44,868	50,739	57,002	66,031	66,031	66,031	83,132
Finance Management		1,450	1,500	1,650	1,800	1,800	1,800	1,800
Municipal Systems Improvement		790	800	890	934	934	934	930
EPWP Incentive				1,000	1,000	1,000	1,000	1,070
Other transfers/grants [insert description]								
Provincial Government:		–	501	939	981	981	981	3,059
Sport and Recreation						–	–	150
Arts&Culture Libraries,Dermacation			501	939	981	981	981	2,909
District Municipality:		–	–	–	–	–	–	–
[insert description]								
Other grant providers:		–	850	–	–	–	–	–
[insert description]			850					
Total operating expenditure of Transfers and Grants:		47,108	54,390	61,481	70,746	70,746	70,746	89,991
<u>Capital expenditure of Transfers and Grants</u>								
National Government:		16,569	20,099	21,621	28,497	28,497	28,497	42,319
Municipal Infrastructure Grant (MIG)		16,569	20,099	21,621	23,497	23,497	23,497	24,319
Intergrated National Electrification					5,000	5,000	5,000	18,000
Provincial Government:		–	–	–	–	5,000	5,000	7,500
Bulwer community service centre						5,000	5,000	7,500
District Municipality:		–	–	–	–	–	–	–
[insert description]								
Other grant providers:		–	–	1,575	150	1,675	1,675	–
Sports and Recreation Pound				1,575	150	675	675	
						1,000	1,000	
Total capital expenditure of Transfers and Grants		16,569	20,099	23,196	28,647	35,172	35,172	49,819
<b>TOTAL EXPENDITURE OF TRANSFERS AND GRANTS</b>		63,677	74,489	84,677	99,393	105,918	105,918	139,810



## 12.Capital Expenditure Details

The following table is a breakdown of capital expenditure for the year 2015/2016, this will assist Ingwe Municipality in rendering its services.

• Infrastructure Assets	19 088 478.27
• Sports field and community facilities	15 122 141.58
• Community halls	5 103 635.14
• Electrification projects	20 000 000.00
• Investment properties	1 384 615.38
• Bulwer community service center	7500 000.00
• Vehicle	1 620 000.00
• Other Assets	1 463 461.30

## 13.Councillors Allowances and Employee benefits

The following table is a breakdown of Councillors Allowances and Employee benefits for the year 2015/2016.

Summary of Employee and Councillor remuneration  R thousand	R e f	2011/1 2	2012/1 3	2013/1 4	Current Year 2014/15			2015/16 Medium Term Revenue & Expenditure Framework		
		Audite d Outco me	Audite d Outco me	Audite d Outco me	Origin al Budge t	Adjust ed Budge t	Full Year Foreca st	Budget Year 2015/1 6	Budge t Year +1 2016/1 7	Budge t Year +2 2017/1 8
	1	A	B	C	D	E	F	G	H	I
<b>Councillors (Political Office Bearers plus Other)</b>										
Basic Salaries and Wages		5,543	5,302	5,977	6,188	6,188	6,188	6,571	6,900	7,245
Pension and UIF Contributions		-	-	-	-	-	-	-	-	-
Medical Aid Contributions		-	-	-	-	-	-	-	-	-
Motor Vehicle Allowance		-	-	-	-	-	-	-	-	-
Cellphone Allowance		-	-	-	461	461	461	541	568	596
Housing Allowances		-	-	-	-	-	-	-	-	-
Other benefits and allowances		-	-	-	80	80	80	-	-	-
<b>Sub Total - Councillors</b>		5,543	5,302	5,977	6,729	6,729	6,729	7,112	7,467	7,841
% increase	4		(4.3%)	12.7%	12.6%	-	-	5.7%	5.0%	5.0%
<b>Senior Managers of the Municipality</b>	2									
Basic Salaries and Wages		2,209	3,943	3,457	19,947	18,182	18,182	4,130	4,337	4,554
Pension and UIF Contributions		-	-	9	160	160	160	14	14	15
Medical Aid Contributions		-	-	-	889	889	889	-	-	-
Overtime		-	-	331	500	500	500	-	-	-
Performance Bonus		-	-	-	500	500	500	237	249	262
Motor Vehicle Allowance	3	330	-	-	-	-	-	679	713	748

Cellphone Allowance	3	-	-	-	54	54	54	-	-	-
Housing Allowances	3	-	-	-	600	600	600	88	92	97
Other benefits and allowances	3	304	-	711	3,281	3,281	3,281	255	268	281
Payments in lieu of leave		-	-	-	-	-	-	-	-	-
Long service awards		-	-	-	-	-	-	-	-	-
Post-retirement benefit obligations	6	-	-	-	-	-	-	-	-	-
<b>Sub Total - Senior Managers of Municipality</b>		2,843	3,943	4,508	25,931	24,166	24,166	5,403	5,673	5,957
<b>% increase</b>	4		38.7%	14.3%	475.2%	(6.8%)	-	(77.6%)	5.0%	5.0%
<b>Other Municipal Staff</b>										
Basic Salaries and Wages		13,280	14,263	17,350	19,947	18,182	18,182	21,290	22,354	23,472
Pension and UIF Contributions		-	101	141	160	160	160	170	179	188
Medical Aid Contributions		-	640	831	889	889	889	951	999	1,049
Overtime		-	340	-	500	500	500	255	268	281
Performance Bonus		-	1,084	1,165	500	500	500	-	-	-
Motor Vehicle Allowance	3	-	-	-	-	-	-	-	-	-
Cellphone Allowance	3	-	-	-	54	54	54	54	57	60
Housing Allowances	3	-	-	-	600	600	600	1,699	1,784	1,873
Other benefits and allowances	3	-	300	992	3,281	3,281	3,281	2,597	34,299	36,288
Payments in lieu of leave		-	-	-	-	-	-	-	-	-
Long service awards		-	-	-	-	-	-	-	-	-
Post-retirement benefit obligations	6	-	-	-	-	-	-	-	-	-
<b>Sub Total - Other Municipal Staff</b>		13,280	16,728	20,479	25,931	24,166	24,166	27,016	59,938	63,210
<b>% increase</b>	4		26.0%	22.4%	26.6%	(6.8%)	-	11.8%	121.9%	5.5%
<b>Total Parent Municipality</b>		21,666	25,973	30,964	58,591	55,061	55,061	39,530	73,079	77,007
			19.9%	19.2%	89.2%	(6.0%)	-	(28.2%)	84.9%	5.4%

## 14.Monthly targets for revenue, expenditure& cash flow

The following table is a breakdown of Monthly targets for revenue, expenditure, cash flow for the year 2015/2016.

Description	R e f	Budget Year 2015/16									
		July	August	Sept.	October	Novemb er	Decemb er	January	February	March	
<b>Revenue By Source</b>											
Property rates		5,179	–	–	–	–	–	(0)	–	–	
Property rates - penalties & collection charges		4	5	6	7	8	9	11	12	13	
Service charges - electricity revenue		–	–	–	–	–	–	–	–	–	
Service charges - water revenue		–	–	–	–	–	–	–	–	–	
Service charges - sanitation revenue		–	–	–	–	–	–	–	–	–	
Service charges - refuse revenue		15	16	17	18	19	20	21	22	23	
Service charges - other		–	–	–	–	–	–	–	–	–	
Rental of facilities and equipment		33	31	27	22	35	27	30	28	33	
Interest earned - external investments		299	494	252	537	241	470	276	237	295	
Interest earned - outstanding debtors		–	–	–	–	–	–	–	–	–	
Dividends received		–	–	–	–	–	–	–	–	–	
Fines		1	12	35	14	25	30	54	20	11	
Licences and permits		–	–	–	–	–	–	–	–	–	
Agency services		–	–	–	–	–	–	–	–	–	
Transfers recognised - operational		17,968	17,968	17,968	–	–	17,968	–	–	17,968	
Other revenue		–	154	–	–	–	250	–	–	230	
Gains on disposal of PPE		–	–	–	–	–	–	–	–	–	
<b>Total Revenue (excluding capital transfers and contributions)</b>		<b>23,499</b>	<b>18,680</b>	<b>18,304</b>	<b>598</b>	<b>328</b>	<b>18,774</b>	<b>392</b>	<b>320</b>	<b>18,573</b>	
<b>Expenditure By Type</b>											
Employee related costs		2,599	2,710	2,535	2,545	2,547	4,478	2,567	2,672	2,385	
Remuneration of councillors		578	574	574	574	566	543	541	569	868	
Debt impairment		–	–	–	–	–	–	–	–	–	
Depreciation & asset impairment		412	413	416	410	459	440	424	436	307	
Finance charges		30	35	35	34	34	34	33	31	30	
Bulk purchases		–	–	–	–	–	–	–	–	–	
Other materials		–	–	–	–	–	–	–	–	–	
Contracted services		35	314	488	210	182	151	120	125	89	
Transfers and grants		59	89	47	46	60	139	141	135	–	
Other expenditure		1,624	2,362	2,021	4,757	2,763	4,751	2,000	3,066	4,985	

Loss on disposal of PPE		-	-	-	-	-	-	-	-	-
Total Expenditure		5,336	6,497	6,116	8,577	6,611	10,535	5,826	7,033	8,664
Surplus/(Deficit)		18,163	12,184	12,189	(7,978)	(6,283)	8,238	(5,434)	(6,713)	9,909
Transfers recognised - capital		2,138	2,361	2,781	3,032	5,721	6,761	2,373	4,105	6,641
Contributions recognised - capital		-	-	-	-	-	-	-	-	-
Contributed assets		-	-	-	-	-	-	-	-	-
Surplus/(Deficit) after capital transfers & contributions		20,300	14,544	14,970	(4,946)	(563)	15,000	(3,061)	(2,608)	16,549
Taxation		-	-	-	-	-	-	-	-	-
Attributable to minorities		-	-	-	-	-	-	-	-	-
Share of surplus/ (deficit) of associate		-	-	-	-	-	-	-	-	-
Surplus/(Deficit)	1	20,300	14,544	14,970	(4,946)	(563)	15,000	(3,061)	(2,608)	16,549

## 15. Legislation compliance status

Compliance with the MFMA implementation requirements have been substantially adhered to through the following activities:

### a. In year reporting

Reporting to National Treasury in electronic format was fully complied with on a monthly basis. Section 71 reporting to the Executive Mayor (within 10 working days) has progressively improved and includes monthly published financial performance on the website.

### b. Internship programme

The Municipality is participating in the Municipal Financial Management Internship programme and has employed interns undergoing training in various divisions of the Financial Services Department. Some of interns has been appointed permanently.

### c. Budget and Treasury Office

The Budget and Treasury Office has been established in accordance with the MFMA.

### d. Audit Committee

An Audit Committee has been established and is fully functional.

### e. Service Delivery and Implementation Plan

## 16. Cash Backed Reserves/Accumulated Surplus Reconciliation

This following table meets the requirements of MFMA Circular 42 which deals with the funding of a municipal budget in accordance with sections 18 and 19 of the MFMA. The table seeks to answer three key questions regarding the use and availability of cash:

- What are the predicted cash and investments that are available at the end of the budget

How are those funds used?

- What is the net funds available or funding shortfall?

A surplus would indicate the cash-backed accumulated surplus that was available

